

**MINUTES**  
**ROCKFORD FIREFIGHTERS' PENSION FUND**  
**March 17, 2016**

A regular meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Thursday, March 17, 2016, at 3:05 p.m. on the second floor of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

**CALL TO ORDER**

The meeting was called to order at 3:05 p.m. Upon a call of the roll, the following answered:

ATTENDED:	Alan Granite, President	Brian Carlson, Secretary
	Tracy Renfro, Trustee	Carrie Eklund, Trustee/Interim City Finance Director
	Michael White, Trustee	

STAFF: Linda Wlaznik, Pension Investment Accountant      Judi Yehling, Recording Secretary

GUESTS:	Attorney Carolyn Clifford, Ottosen Britz	Eric Gaylord, Marquette Associates
	Gary Gustovich, Dimensional	Fire Chief Derek Bergsten (entered @ 4:15pm)

The Board welcomed Carrie Eklund who has been appointed by the mayor, taking over the position previously held by Chris Black.

**I. PUBLIC COMMENT -- None**

**II. MINUTES**

- The February 18, 2016, minutes of the regular meeting were presented. Brian Carlson made a motion to approve the minutes as presented and Tracy Renfro seconded the motion. Upon a voice vote, the motion passed.

**III. APPROVAL OF APPLICATIONS/PENSION CHANGES**

- Mindy Kuehne has withdrawn her application for a disability pension and is applying for a deferred service pension. She has completed 20 years of service and upon reaching her 50<sup>th</sup> birthday on August 16, 2021, will be eligible for an annual pension of \$43,837.79. Alan Granite made a motion, seconded by Tracy Renfro, to accept the withdrawal of Mindy Kuehne's application for a duty disability pension and approve her application for a deferred service pension as presented. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Brian Carlson
	Carrie Eklund	Tracy Renfro
	Michael White	
<b>Nays:</b>	None	

**IV. DISBURSEMENTS**

- Question was asked and answered about the retro amount added to the March payroll – it was for those employees who were entitled to a 2% increase that went back to January and it had to be added to their pension. Brian Carlson made a motion to approve the March payroll of \$1,391,753.54. The Tracy Renfro seconded the motion. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Brian Carlson
	Carrie Eklund	Tracy Renfro

Michael White  
**Nays:** None

- Invoices totaling \$44,435.02 as shown in the warrant packet were presented. The double payment to Marquette shown in the packet was due to the fact that the prior quarter's invoice was never received so this payment covers two quarters and the current quarter. A motion was made by Alan Granite, and seconded by Tracy Renfro, to pay the invoices as presented in the warrant packet. A roll call vote was then taken:

**Ayes:** Alan Granite      Brian Carlson  
          Carrie Eklund     Tracy Renfro  
          Michael White  
**Nays:** None

## V. CASH & INVESTMENTS

- Gary Gustovich of Dimensional, the emerging markets value fund manager, presented the fund's performance report to the Board as of March 17, 2016:
  - Dimensional has partnered with clients and the academic community for about 35 years. They look for fair market prices and believe that diversification is essential. They are a global company with investment offices across geography and time zones and have recently added a new office in Charlotte, North Carolina.
  - They currently have \$52 billion under management in emerging markets and every portfolio is team managed.
  - The academic community plays an important role in supporting their basic philosophy that governs the "dimensions" of expected returns. There are five things they look for: it must be sensible; it must have an economic rationale behind it; it must be persistent across time periods; be pervasive across markets; and must be cost effective.
  - Page 12 shows Dimension's performance net of fees since inception. The Emerging Markets Value Fund has delivered long term outperformance against the benchmark: 9.43% vs. 5.99%.
  - Pages 14 and 15 provide a profile of the Emerging Markets Value portfolio which began in April 1998 and has 19 countries represented with 2,282 names. They target securities with the lowest price to book ratio and they exclude small caps with lower profitability.
  - Pages 16 and 17 show the list of countries they are invested in with a 15% investment cap in any one country to help control risk and a list of exclusions and considerations.
  - Pages 19 and 20 describe their buy and sell philosophies based on momentum and trading costs.
  - Performance-wise emerging markets have been very disappointing for the past five years and value securities have been out of favor. This is a very volatile asset class but Dimension's strategy is to stay focused and dedicated which in the long term has provided outperformance. They keep no cash in the portfolio and value did "snap back" in March and is up about 9.6%; the market seems to swing between value and growth every five years. Dimension is "comfortable" that emerging markets and value are coming back and they are optimistic about the future.
- Eric Gaylord presented Marquette Associates' Flash Report as of February 29, 2016:
  - It has been a very difficult start to the year but recession talk has dissipated and the economic data is good. The consumer market is strong and housing starts were up 5.2% in February.

- The low oil prices have had an unusual impact on the market – the market was down when oil traded down and vice versa. It is currently up and this is good for emerging markets and has slowed the strengthening of the dollar. As the dollar strengthens the rates rise and currently the Fed is lowering its expectations for raising rates which dampen volatility.

(Trustee Renfro, who was on duty, left the meeting to respond to a call.

- In the Fixed Income markets, with the Fed implementing two rate increases instead of four, the bond market was up.
- For the U.S. equity market, February started poorly and closed flat. Large cap value underperformed growth but in February value outperformed growth.
- The international market “snapped back” in March with the world banks providing stimulus rates and initiating a bond buy-back program.
- The Fund is in line with its targets although fixed income is still a little high so the recommendation is to take \$1.2 million from Hillswick to meet cash needs for the month.
- The Fund is up 0.5%. Fixed income is up .67%; US equities are up .5% outperforming the Wilshire index; in non-U.S. while the indexes are negative, the Fund managers are up 0.4% including Manning & Napier; and Real Estate is up 0.6% due to Principal and a struggling PIMCO Fund was up 4% in March through yesterday.
- Question was raised as to whether Dimensional was on notice since they have not met their benchmark for the last five years. The explanation was that overall last year was weak which affected their long-term numbers; however, they have a very prestigious staff of academics and research to back up their position. Value should come back, said Gaylord, and he would leave it for Mike Piotrowski to put them on alert.
- The closing comments were that there is more ability for active managers to perform in the small cap space but it is good to have a mix of active and passive managers.
- Cash needs are \$1.2 million and the recommendation is to take the money from fixed income -- Hillswick this month.

Alan Granite made a motion, seconded by Training Coordinator Carlson, to take \$1.2 million from Hillswick Fixed Income Fund to cover cash needs. A roll call vote was taken:

**Ayes:** Alan Granite      Brian Carlson  
           Carrie Eklund     Michael White  
**Nays:**     None  
**Absent:**    Tracy Renfro

- Records of purchases and sales were distributed. Brian Carlson made a motion, seconded by Carrie Eklund, to approve the purchases and sales for the month. A roll call vote was taken:

**Ayes:** Alan Granite      Brian Carlson  
           Carrie Eklund     Michael White  
**Nays:**     None  
**Absent:**    Tracy Renfro

## VI. OLD BUSINESS

Reporting on Carla Heitter’s disability case, Attorney Clifford explained that Heitter was all set for her IME appointments and she saw Dr. Samo yesterday who already turned in his report. However, Attorney Clifford has received correspondence from Carla’s attorney, Tom Duda, protesting the choice of IME doctor for her last appointment with Dr. Soriano on April 19<sup>th</sup>

because he is biased when it comes to workmen's comp cases. He was referred to us by a third-party IME referral source, and Attorney Clifford has sent a letter asking for more information from Mr. Duda on his concerns and the possibility of selecting another doctor.

The Board does have two other choices it had originally considered, Drs. Levin or Gleason, and she can schedule with either but she still wants to see Mr. Duda's documentation for purposes of future disability matters. She reminded the Board that it had originally selected Dr. Soriano in an effort to use as many Rockford physicians as possible to avoid sending applicants to Chicago for IMEs. A motion was made by Brian Carlson and seconded by Carrie Eklund to remove Dr. Soriano as an IME in Carla Heitter's case and select either Dr. Levin or Dr. Gleason, whoever has the first available appointment. A roll call vote was taken:

<b>Ayes:</b>	Alan Granite	Brian Carlson
	Carrie Eklund	Michael White
<b>Nays:</b>	None	
<b>Absent:</b>	Tracy Renfro	

In any case, Attorney Clifford noted that we will not be able to conduct Carla Heitter's hearing at the April meeting, as she has a conflict with another disability matter, and we will have to either hold a special hearing or conduct the hearing at the May meeting.

- Attorney Clifford informed Board that she still needs a copy of the disability application from Lieutenant Boris to initiate the process. Linda Wlaznik will forward a copy to Attorney Clifford.

## **VII. NEW BUSINESS**

- Discussed at length the status of the actuarial study for this year. Linda Wlaznik informed Board that Tim Sharpe declined to appear in person at the Rockford Police Pension Board Meeting as had been requested, and the Police Board wanted to initiate the RFP process for a new actuary immediately. However, their attorney, Bobbie Holzwarth, is holding off as a report does not need to be filed with DOI until September 30<sup>th</sup>. Currently, it is not known if the American Academy of Actuaries (AAA) will be taking the recommendation of the Actuarial Board for Counseling and Discipline (ABCD) to expel Mr. Sharpe from membership.

According to Carrie Eklund the last RFP for actuarial work was 2006 and in 2015 the City solicited quotes and chose Sharpe again. That contract was subsequently extended until 2018. Attorney Clifford discussed her experience and opinions on Sharpe's actuarial work stating that she has at least 19 clients who have worked with him. As far as she knows Sharpe has had several complaints filed with the ABCD, and after complaints having to do with mortality tables, he did change the mortality tables following those complaints (including changing them in the Fund's actuarial study last year). The actuarial profession is a self-policing profession, and the ABCD has been delegated the power to investigate and evaluate possible violations of the actuarial codes of conduct. The whole process, she explained, is a confidential procedure and the ABCD does not discipline but makes a recommendation back to whatever society the actuary belongs to. Attorney Clifford supplied a packet of materials to Board members dealing with actuarial issues and concerns past and present for their review.

Tracy Renfro rejoined the meeting at 4:10 p.m. and Chief Bergsten joined the meeting at 4:15 p.m.

The City has been responsible in the past for the contract with the actuary but the Board members are the fiduciaries to the Fund. Attorney Clifford believes that obtaining an actuary should be a shared responsibility with all parties (the City, Police and Fire Funds) having input beginning with the RFP and subsequently sharing in the cost. Currently, the Funds pay the entire cost of the actuarial studies, which is passed on to them through the City's services bill.

Subsequent discussion centered on preparation of the actuarial reports including the use of entry age normal versus PUC. Attorney Clifford also provided an article she wrote that will be published in the *Fire Call* this spring which focuses on what to look for in an actuary.

Carrie Eklund stated that the RFP is the basis for the contract which was last compiled in 2006 and added that if there is a disciplinary action against the actuary, then the agreement can be broken for cause. Attorney Clifford cautioned that the Board should be sure the liabilities are clear and to whom the actuary owes his duty. Sharpe's expulsion would require that we not use him under Article 4 statutory provisions, as the statute requires that the actuary be a member of either the AAA or the Society of Actuaries; the hard part is there is a very limited pool of actuaries who are interested in doing this work for Article 3 and 4 pension funds. According to Police Board Attorney Holzwarth, Police would like to issue a joint RFP but there is a "time crunch." Currently there is a \$5,000 cost to each Fund for actuarial services.

Carrie Eklund indicated that the Police are talking about going outside the City for an actuary but there is no time to do it for this year; Sharpe would still do it for this year as he is still under contract. It is a lengthy process to get collaboration. As Chief Bergsten confirmed, the big hurdle is the timeframe and getting the understanding of the Council and the Mayor, besides cooperation with the Police Board. As Carrie stated, the big concern for the City is control and liability. Attorney Clifford said there are only a few actuarial firms who are responding to RFPs for this work and another hurdle is the cost of the large actuarial firms, assuming that some of the larger Chicago actuarial firms might be interested in handling Rockford's work because of its size.

Attorney Holzwarth wants to try to "slow her board down" and perhaps Attorney Clifford can come to town and meet with her and the City to establish goals for this process in the future. Trustee Eklund indicated that Chris Black had talked to Lauterbach and Amen, the City's auditor, and for 2016 the City will catch up on the actuarial process and will only be a year behind with levying, instead of two years behind as it had been in the past. Attorney Clifford said she will continue to communicate with Attorney Holzwarth and meet with her and others to assess goals but we can maybe limit the involvement in discussions initially to one member from each Pension Board. The Board agreed that Trustee White would be an appropriate representative of the Board in any future meetings with the Police Board and the City on actuarial issues.

Chief Bergsten left the meeting at 4:50 p.m.

- Tracy Renfro informed the Board that Vince Boris had gone back to the doctor and he now has other issues and he assured Vince that this won't affect his disability status. Attorney Clifford said this should not delay his application process.
- Linda Wlaznik advised that there are three nominees for the retired Trustee position: Steve Schulz, Joe Cascio and Bill Beaman. Both Schulz and Cascio have accepted the nomination but although Linda couldn't reach Beaman, he will stay on the ballot as he had expressed interest before. Linda Wlaznik will prepare the ballots. Attorney Clifford said it is okay for individuals to self-nominate and in future the Board, if it wishes, can accept only self-nominations.
- Updates from Attorney Clifford were:
  - There is a Senate Bill #3317 which proposes consolidation of the investment authority of Article 3 and 4 pension Funds. Attorney Clifford said the Board should be aware of the bill but it should gain no serious momentum according to IPPFA; however it would not hurt to call your representative to ask them to say "No."
  - NCEPRS has sent out a proposed policy designed to ensure that Fund service providers are not engaged in any activities or supporting any organizations that are working against public pension systems. The Board can consider a more expansive version of this policy when it next updates the Board rules.

- There is training on Friday, May 6<sup>th</sup>, for the spring session of IPPFA. Carrie Eklund will need 32 hours of training and will have 18 months to complete it. Even if she is not appointed as the finance director, she indicated it is likely that the mayor will keep her on the Board.

**VIII. CLOSED MEETING – None required.**

**IX. ADJOURNMENT**

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned 5:05 p.m.

Next regular meeting is April 21, 2016, at 3:00 p.m.

Signed:



Brian Carlson, Secretary

4-21-16

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

*Approved by the Board of Trustees at its April 21, 2016, meeting.*